

STATE WATER RESOURCES CONTROL BOARD
BOARD MEETING SESSION – DIVISION OF FINANCIAL ASSISTANCE
DECEMBER 5, 2017

ITEM 8

SUBJECT

CONSIDERATION OF A PROPOSED RESOLUTION TO MODIFY THE TERMS OF THE CLEAN WATER STATE REVOLVING FUND (CWSRF) PROGRAM FINANCING FOR DONNER SUMMIT PUBLIC UTILITIES DISTRICT (DISTRICT); WASTEWATER FACILITIES UPGRADE AND EXPANSION PROJECT (PROJECT); CLEAN WATER STATE REVOLVING FUND (CWSRF) PROGRAM PROJECT NO. C-06-7670-210; FINANCING AGREEMENT NO. 12-805-550

DISCUSSION

The District is located in Nevada County in the census-designated place of Soda Springs, California. The District serves a second-home community with equivalent dwelling units (EDU) service connections consisting of 69 percent commercial and 31 percent residential ~~connections~~.

On August 31, 2012, the Division of Financial Assistance (DFA) executed a Financing Agreement for \$16,073,401 with the District for construction of their wastewater treatment Project. The initial Financing Agreement was executed with a repayment term of 27 years at an interest rate of 2.2 percent. On July 23, 2014, DFA increased the agreement amount to \$16,846,932, with no change to the interest rate and finance term.

CWSRF financing was used to upgrade the District's wastewater treatment plant to comply with the Waste Discharge Requirements (Order No. R5-2009-0034) and Cease and Desist Order (Order No. R5-2009-0035). The upgraded and expanded wastewater treatment facilities are designed to provide biological nitrogen removal (nitrification and denitrification), and to meet the requirements for Disinfected Tertiary Recycled Water as defined in California Title 22 Code of Regulations (Title 22). The wastewater treatment plant includes various features specifically designed to address the unique challenges to providing a required high-level of treatment in this mountain community with cold winter wastewater temperatures and highly variable flows and loads.

The District completed construction of the Project on December 31, 2014. The District made timely and full payments for 2015 and 2016. In ~~February~~ ~~September~~ 2016, District staff alerted DFA staff that the District was having financial difficulties, and that their Sewer/Wastewater Fund, the source of revenue to pay the CWSRF obligation, would not have sufficient funds to make the payment due December 31, 2017.

At the request of DFA, Clifton Larson Allen LLP prepared the Donner Summit Public Utilities District – Financial Checkup that confirmed the revenues generated by the District's Sewer/Wastewater Fund were insufficient to cover its expenses.

In a letter dated August 21, 2017, the District formally requested a modification to its agreement. The letter cited the insufficient revenue and explained the District has been using reserve funds to make payments. The continued use of reserve funds may result in financial jeopardy for the District. The District's wastewater rates are currently 4 percent of the community's median household income, which is relatively high compared to other communities.

DFA recommends reducing the interest rate from 2.2 percent to 0.751-8 percent for the remaining 25 years of the District's 27-year financing term. ~~In addition, DFA recommends deferring interest payments for 2017, 2018 and 2019, resulting in estimated principal payments of \$523,272, \$532,691 and \$542,279, respectively. The three years of deferred interest will be allocated evenly across the remaining payments, resulting in equal annual payments of \$856,189 for years 2020 through 2041.~~

~~The reduced payments for the first three years will give the District time to implement a solution for increasing revenue to the Sewer/Wastewater Revenue Fund. The District has been encouraged to look at a solution that would equitably distribute the increase in fees across the commercial and residential connections according to use and benefit.~~

POLICY ISSUE

Should the State Water Board approve a reduction in the current interest rate from 2.2 percent to 0.751-8 percent for the remaining 25 years of the District's 27-year CWSRF financing term, ~~and a deferral of interest payments for the first three years of the modified loan?~~

FISCAL IMPACT

The principal financing amount will be recouped. However, the CWSRF will not receive approximately ~~\$2,566,273~~ \$3,437,111 in earnings over the remaining 25 years of the financing agreement.

REGIONAL BOARD IMPACT

None.

HUMAN RIGHT TO WATER ANALYSIS

None.

STAFF RECOMMENDATION

The State Water Board should adopt the proposed Resolution to approve a reduction in the current interest rate from 2.2 percent to 0.751-8 percent for the remaining 25 years of the District's 27-year CWSRF financing term, and a deferral of interest payments for the first three years of the modified loan.

State Water Board action on this item will assist the Water Boards in reaching Goal 6 of the Strategic Plan Update: 2008-2012 to enhance consistency across the Water Boards, on an ongoing basis, to ensure our processes are effective, efficient, and predictable, and to promote fair and equitable application of laws, regulations, policies, and procedures.